Corner Office Views

CERULLI ASSOCIATES

Research | Analytics | Consulting

Corner Office Views

Timely Insights to Inform your Business Strategy

Lead with knowledge and perspective. Connect with secular trends impacting financial services, interpret what they mean for your business, and drive new opportunities. Cerulli's Corner Office Views provides market-leading insights and tangible takeaways for senior executives seeking to strengthen and scale their business models.

About the Author

Fabrizio Zumbo

Associate Director,
European Asset and Wealth
Management Research

Fabrizio leads the European Retail/Wholesale Asset Management research practice, which focuses on analyzing asset management product development trends, investment, operational and marketing strategies, market and distribution dynamics, regulatory changes, and performing market and competitive intelligence in the United Kingdom, Continental Europe, and the Nordics.

Prior to joining Cerulli, Fabrizio served as a Lead Industry Analyst at State Street in London and as a Senior Analyst & Research Editor for the PwC's Global Market Research Centre in Luxembourg. Previously, he carried out several field-based research projects in emerging and frontier markets for international market research and economic consulting firms, spending almost five years performing economic and industry analyses in several countries in Latin America, Africa, and the Middle East.

Education

- University of Bologna, Italy
  M.Sc. Development Economics, magna cum laude
- University of Bologna, Italy
  B.Sc. International Relations

How Are Investor Preferences Shifting in Europe?

Risk management has become an important goal for private banking and wealth manager clients

Key Points

- Wealth managers' clients are increasingly interested in new technologies such as artificial intelligence and next-generation and disruptive tech.
- Around half (49%) of the private banks and independent wealth managers (IWMs) Cerulli surveyed across Europe expect demand for private equity products to increase over the next two years; 43% expect demand for real estate to increase and 42% expect demand for private debt to increase.
- Many clients are considering exposure to Asian countries, particularly China, whose economies have recovered well from the impact of the coronavirus pandemic.

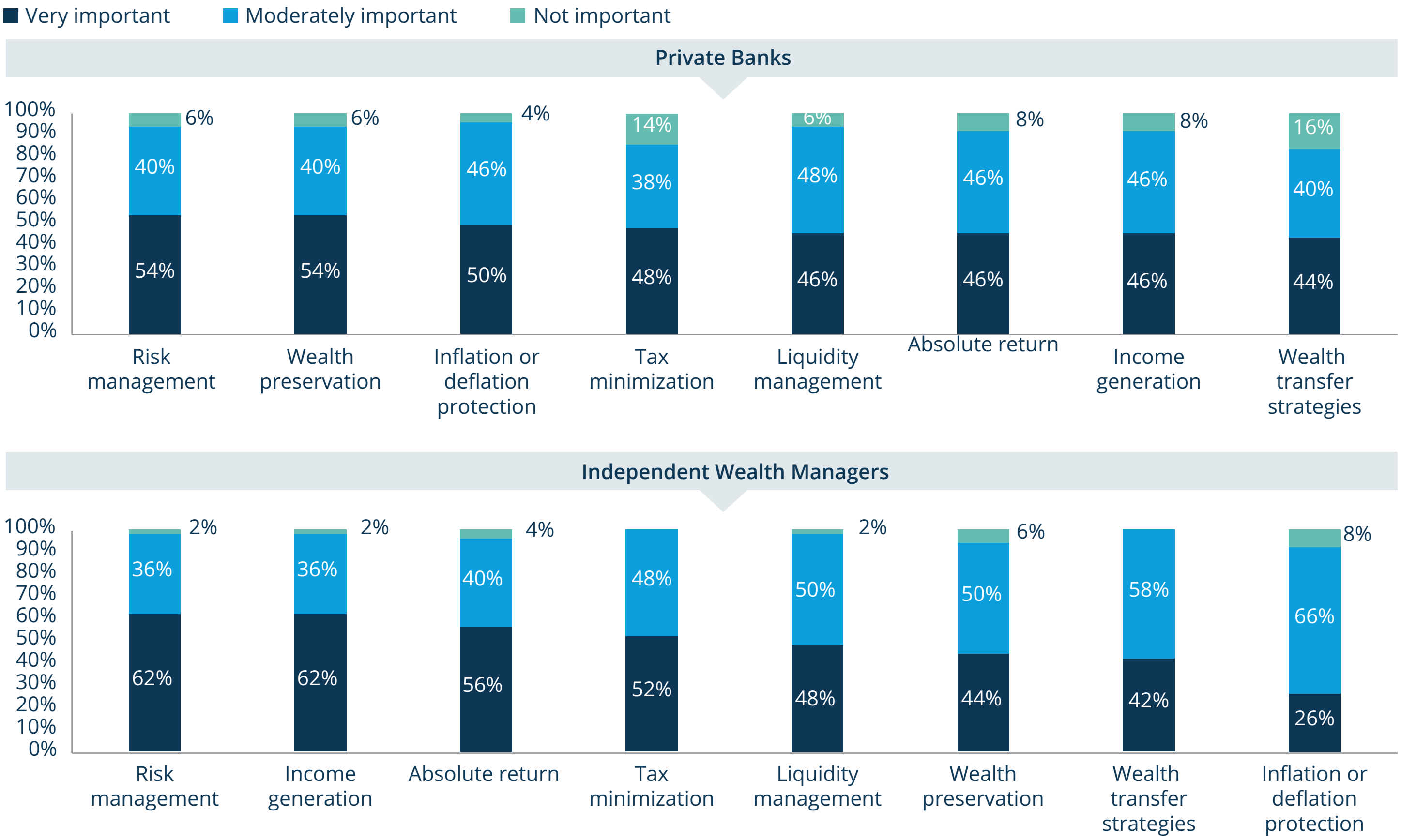
Shifting investment goals

The European private banking segment performed well in 2020 and by the end of the year, the assets of the top-10 European private banks had grown year-on-year. Despite this continued success, wealth managers' clients' preferences are shifting and the pandemic has helped to accelerate the change.

Wealth managers' clients are increasingly interested in new technologies such as artificial intelligence and next-generation and disruptive tech. Thematic funds and ETFs in those categories performed better than expected last year. Data from Morningstar shows that European investors allocated €3.8 billion of net new money to funds and ETFs focused on artificial intelligence during 2020. Next-generation tech funds and disruptive tech funds gathered €3 billion and €2 billion respectively. Cybersecurity funds also had a good year, attracting €1.1 billion of net new money from European investors.

> Cybersecurity funds had a good year, attracting €1.1 billion of net new money from European investors.

European Private Banks and Independent Wealth Managers' Clients Level of Importance of Investment Goals, 2021



Source: Cerulli Associates | Analyst Note: Private banks and Independent Wealth Managers were asked what were the most important goals/objectives to their clients in the current economic environment.

The importance of investment goals to private banks' clients is also shifting. Last year, 51% of the private banks Cerulli surveyed said tax minimization was very important to their clients, 44% said inflation/deflation protection was very important, and 35% said that wealth preservation was very important. In contrast, only 9% of the respondents to Cerulli's 2021 survey said liquidity management is a very important goal for their clients and just 5% said the implementation of wealth transfer strategies is very important. As the exhibit above shows, in 2021, 54% of the private banks we surveyed said that risk management is a very important goal for their clients and 50% said inflation/deflation protection is very important. The head of distribution at a large Swiss wealth manager told Cerulli that the events of last year reminded clients of the importance of risk management and of the need for protection from any increase in inflation linked to the economic recovery.

Some 62% of the IWMs Cerulli surveyed said that risk management is a key goal for their clients. In addition, 46% of the private banks we surveyed said that income generation is a very important goal for their clients.

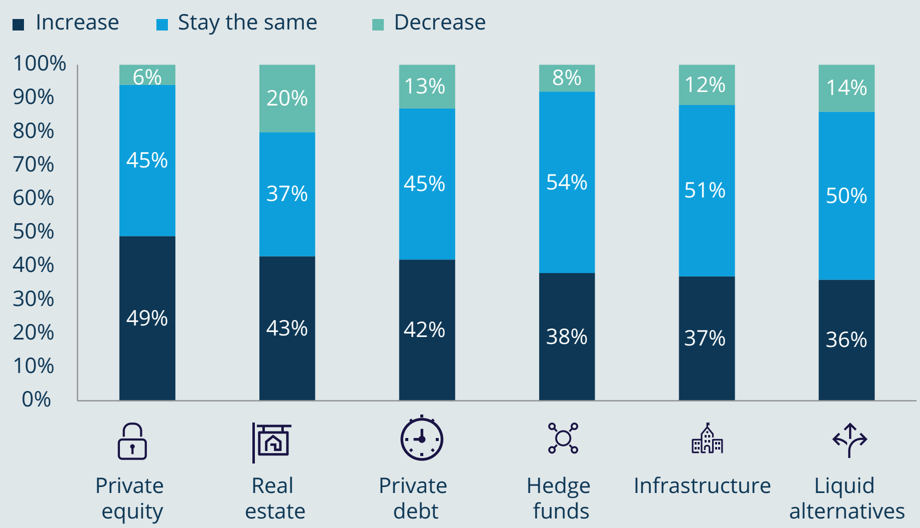
Demand for alternatives

Although the needs of private banks' and IWMs' clients have been changing in recent years, COVID-19 has taken things in a new direction. For instance, investor demand for alternative asset classes is increasing and, as the exhibit below shows, it is expected to continue growing over the next two years.

Around half (49%) of the private banks and IWMs Cerulli surveyed across Europe expect demand for private equity products to increase over the next two years; 43% expect demand for real estate to increase and 42% expect demand for private debt to increase. In addition, almost half of the private banks we surveyed plan to develop their private equity value propositions for mass-affluent clients in 2021. Nevertheless, most private banks do not allocate assets to private equity due to liquidity concerns, which are among the main obstacles to investing in these products. Risk aversion and the complexity of private investments are another two of the factors deterring retail investors, according to the private banks we surveyed. However, a manager operating in the U.K. told Cerulli that the expectation that interest rates will be low for some time "is pushing investors into what were previously seen as more esoteric asset classes, such as private debt."

As appetite for private markets increases, open-end and evergreen funds have been gathering more assets. However, their success is still limited due to the high barriers to entry and the relatively long period until a fund is fully invested. Some asset managers are considering European long-term investment funds (ELTIFs) when structuring private investments for private bank clients. According to ESMA data, at the end of 2020, only 28 ELTIFs were registered for distribution in Europe. However, the number of requests for ELTIF authorizations seems to be growing in some EU member states, particularly Italy, where uptake has been boosted by new regulations and the introduction of the alternative piano individuale di risparmio (PIR) ELTIF structure.

European Private Banks and Independent Wealth Managers' Clients Level of Demand for Selected Alternatives Products Over the Next 12 to 24 months, 2021



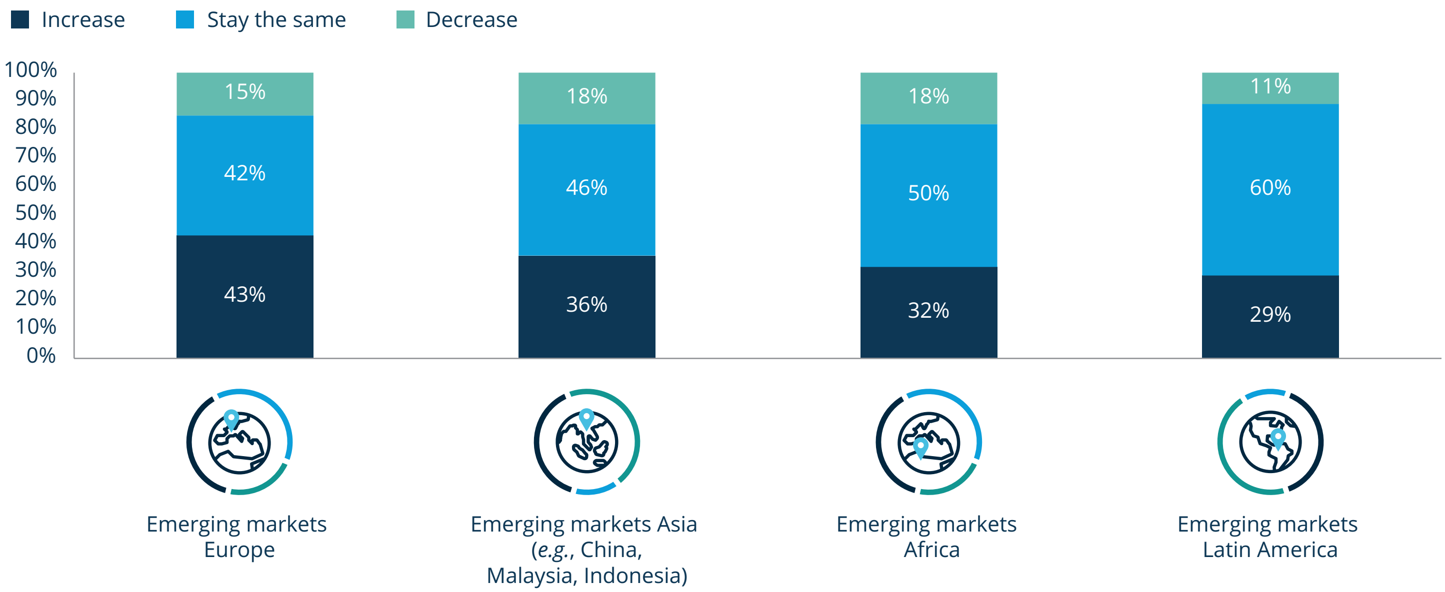
Source: Cerulli Associates | Analyst Note: Private banks and Independent Wealth Managers were asked what they expect the level of demand for the following types of products to change among their clients over the next 12 to 24 months.

Increased emerging market exposure

European investors are seeking decent yields and a higher level of diversification in their portfolios. As a consequence, their appetite for emerging market exposures is growing. As the exhibit below shows, 43% of the of the wealth managers Cerulli surveyed expect demand for European emerging market funds to grow over the next two years. The head of third-party distribution and wealth management at a large Swiss private bank told Cerulli that their clients are increasingly interested in exposure to Eastern European and Latin American countries, because they are cyclical economies that could benefit from recovery from COVID-19. Many clients are also considering exposure to Asian countries, particularly China.

Several asset managers told Cerulli that European investors believe that emerging markets, particularly in Asia, are recovering well from COVID-19, which means they are more inclined to gain exposure to such regions. Over the past year, a number of fund managers have taken steps to meet investor demand for China bonds; flows into Europe-domiciled China fixed-income products have nearly doubled. Wealth managers' interest in China A-shares is also increasing, according to the head of sales at a large US asset manager. On the manager side, JPMorgan Asset Management launched a China A-shares strategic beta index in partnership with China Securities Index last year. In addition, UBS Asset Management launched a China A-shares ETF offering exposure to the onshore Chinese equity market.

European Private Banks and Independent Wealth Managers wiev on Expected Level of Demand for Emerging Markets Exposures Over the Next 12 to 24 months, 2021



Source: Cerulli Associates | Analyst Note: Private banks and Independent Wealth Managers were asked what do they expect the level of interest from their clients for the following geographic exposures over the next 12 to 24 months.

Attractive active and passive strategies

When it comes to the fund strategies that will be in the highest demand over the next year, the private banks and IWMs Cerulli surveyed agree: 54% of the former and 32% of the latter believe that European equity will be the most in-demand active strategy over the next 12 to 24 months. This is no surprise, given that, for example, the MSCI's Germany index rose 11.55% during 2020 and the MSCI Sweden Index, which covers approximately 85% of the Swedish equity universe, returned 24.42% last year.

Several of the asset managers Cerulli interviewed in Europe expect European equities to perform well in 2021. Optimism is high that the rollout of the coronavirus vaccines across Europe will contribute to the recovery of European equity. Asset and wealth managers are positioning themselves to serve investors in the next business cycle, focusing their attention on cyclical sectors such as financials and industrials and economies, such as Europe and Japan, that should benefit from the COVID-19 recovery.

In the passive domain, the private banks and IWMs Cerulli surveyed consider European equities to be best placed to attract fresh flows over the next 12 to 24 months. However, respondents expect fixed-income ETFs to be in the highest demand: all of the five passive strategies that private banks and IWMs believe will see most demand all fixed-income strategies.

ETFs, particularly in the fixed-income domain, proved their resilience last year, passing the so-called "liquidity test" under stressed market conditions. Such products had been expected to be vulnerable to liquidity issues during periods of sustained liquidity stress, but investors seem to believe that fixed-income ETFs remained resilient last year. Demand for such products is growing, boosted by investors' increased confidence in them and ETF issuers' ongoing product innovation efforts. The head of the wealth management division at one large German bank told Cerulli that fixed-income ETFs have been a better place for "price discovery" than mutual funds during the coronavirus pandemic. Many of the ETF issuers we interviewed said that that the pandemic has elevated the status of fixed-income ETFs.

> The head of the wealth management division at one large German bank told Cerulli that fixed-income ETFs have been a better place for "price discovery" than mutual funds during the coronavirus pandemic.

Research | Analytics | Consulting

Cerulli for Research and Consulting

For nearly 30 years, Cerulli has provided global asset and wealth management firms with unmatched, actionable insights.

Headquartered in Boston with fully staffed offices in London and Singapore, Cerulli Associates is a global research and consulting firm that provides financial institutions with guidance in strategic positioning and new business development. Our analysts blend industry knowledge, original research, and data analysis to bring perspective to current market conditions and forecasts for future developments.

Cerulli's research product line includes the Cerulli Report series, the Cerulli Edge series, and Cerulli Lodestar.

Contact us to learn more:

info@cerulli.com | www.cerulli.com

CERULLI ASSOCIATES

Research | Analytics | Consulting

info@cerulli.com | www.cerulli.com

United States

699 Boylston Street
Boston, MA 02116
United States
+1 617-841-1011

Europe

Valiant House,
4-10 Heneage Lane
London EC3A 5DQ
United Kingdom
+44 (0)20 7645 9040

Asia

10 Anson Road, #24-15
Singapore 079903
+65 6327 4045